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IN THE

Supreme Court of the United States

OCTOBER TERM 1942

No. 696

A. W. ALTVATER AND THE WESTERN SUPPLIES
COMPANY,

Petitioners,

v.

BENJAMIN W. FREEMAN AND THE LOUIS G.
FREEMAN CO.,

Respondents.

BRIEF OF RESPONDENTS IN OPPOSITION TO CERTIORARI PETITION

✓ MARSTON ALLEN,
Counsel for Respondents.

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STATEMENT

1. This is the second time that certiorari has been sought in this Court by the petitioners against the respondents (Sec. 290, U. S. 696). The first arose from litigation involving the same patent license that is involved in this cause, which Freeman had granted to petitioner under his patent [*Freeman et al. v. Altvater et al.*, 66 Fed. (2d) 506]. In 1923 Altvater copied the Freeman machine later patented to him, and immediately received the die

and machine business of International Shoe Company and Brown Shoe Company, this being a large portion of the available business, which petitioners in their brief and petition contend is controlled by Freeman. Freeman's patent issued August 14, 1928. By January 1, 1929, at the time that the license was granted, Altvater had been enjoying this business for 5 years. He was then well established in the business of infringing Freeman's patent, and very significantly was also ready to come out and did come out with a machine which was intended to accomplish the same purpose, but was contended to be outside of the license and not an infringement.*

The machine was called a Model T machine, large numbers of which were sold to International and Brown. In the above cited cause between the present parties, the Court of Appeals of the Eighth Circuit found for Freeman that his patent had been infringed and his contract breached by petitioners. From this decision certiorari was sought and denied.

2. In connection with the accounting which followed, it appeared that certain pieces of apparatus, not discussed in the original cause, had been sold outside of the license by petitioners here, and Freeman, after being unable to persuade the Master to include these in the accounting, brought in 1935 the present action to require accounting as to them, under the decision in 66 Fed. (2d) above cited (Rec. p. 2).

3. To this action, after a supplemental bill to be referred to below, the petitioners filed in 1937 the counterclaim for

* "Freeman in 1923 produced a machine to make cut-outs in such uppers. . . . The Freeman machine met with favor, and the defendants copied it in order to meet the demands of their customers. After Freeman had been granted his patent, the controversy which arose . . . was settled by the license agreement . . . which was entered into on January 1, 1929. . . . Within a few days after the execution of this agreement, the defendants placed upon the market a cut-out machine, known as the 'Model T,' designed by the defendant Altvater, president of the defendant company. . . ." (Freeman v. Altvater, 66 Fed. (2d) 506-7).

declaratory judgment, concerning which they now pray for certiorari, asking that Freeman's reissue patents be held invalid. During the trial in February 1940 (Rec. p. 60) the petitioners filed the "unclean hands" defense concerning which they seek to say so much in their present petition and brief.

4. In 1937 during the pendency of the accounting, petitioners went back to the Court of Appeals and asked that the original cause be reopened in view of the decision in the cause of *Freeman v. Premier*, 84 Fed. (2d) 425, to which they refer in the statement, but the Court of Appeals denied a reopening. In fact, different claims of the patent were involved in the case against petitioners, except for ones which were sustained in the *Premier* case (Rec. p. 197) (66 Fed. [2d] 506).

5. The *Premier* decision (*supra*) made it incumbent on respondent Freeman to reissue his patent, and after reissue, the reissue copies were sent to petitioners in December 1936 with a statement that they would thereafter apply to the contract (Rec. 468). This was five years before the District Court held that the contract had been terminated and not prior thereto as Section 5, page 2 of the petition herein seems to state. Also Freeman did not file a disclaimer except as part of his reissue proceedings and after notice of allowance (Rec. 443,445), which would certainly not be gathered from Sections 3 and 4, page 2, of the petition herein. Petitioners continued to report and pay royalties. In June 1937 the bill in this cause was supplemented by a paper reciting the reissues and acceptance thereof (Rec. 39). It was after initiation of the supplementary action that the petitioners filed their motion to reopen in Court of Appeals, and the declaratory judgment counterclaim in the present cause and the similar declaratory judgment claim in the District Court in the

Sixth Circuit. The records as to all of these are exhibits in this cause (Exs. 20, 28, Rec. p. 45).

6. As to the declaratory judgment action in the District Court at Cincinnati, their bill was dismissed on demurrer (motion to dismiss), appeal was taken to the Court of Appeals of the Sixth Circuit, and the District Court was affirmed. In that decision (109 Fed. [2d] 695) the Court of Appeals *had no facts before it except as pleaded by petitioners, and hence its obiter remarks are not based on a review of the true facts.*

7. In the present cause, the District Court, being the same one which was reversed in the original cause, adopted findings and legal conclusions which it obtained from the petitioners, and entered its decree without consulting with counsel for the respondents as to either. We charged this in the Court of Appeals as not in accordance with Equity.

8. On appeal the Court of Appeals found in favor of the petitioners in this cause on the Supplementary Bill and Answer, holding that the particular devices sought to be included in the accounting were outside thereof, and also finding that the license contract between the parties had expired in December, 1936, which was the date when Freeman's original patent had been reissued.

9. This point was hotly contested, because while the controversy was pending and for almost five years after the grant of the reissues to Freeman, the petitioners continued to pay the regular royalties to Freeman for the devices as to which there was no contest pending between them. The respondents contended that no concern has a right to contest a patent during the period when it is paying regular royalties for the use of the same. Hence it was urged that declaratory judgment was not open to the petitioners, since by paying royalties, petitioners had prevented respondents from protecting their patents

against infringement, wherefore no justiciable controversy was in existence.

10. As stated in the petitioners' factual statement, the Court of Appeals in this cause found that it was not necessary in order to adjudicate the rights of petitioners, for it to go into the matter of the counterclaim for declaratory judgment. It also found it unnecessary to discuss the "unclean hands" defense to respondents' bill, having found in favor of petitioners on the pleadings (except for the counterclaim).

11. On the rehearing, the Court of Appeals further refused to countenance the counterclaim for declaratory judgment saying:—

"By their counterclaim defendants sought a declaratory judgment, but as already observed, when the court found no infringement, *there then remained no justiciable controversy.*" *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288; *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227. (Italics ours.)

This was in complete accord with respondents' petition for rehearing and its contentions on the main appeal. As to the dies which were uncontestedly within the patent, Freeman had been barred from any position inconsistent with a license because petitioners had been paying the regular royalties for the entire period of the litigation.

12. Petitioners state in Section 8, page 3, of their petition that they have a right to continue their "business rightfully started" when they did have a license. This was also argued in the Court of Appeals in this action, to which we replied (relying on the former record before that Court in the original cause)—that Altvater had started copying the Freeman machine in late 1923, that Altvater has testified that in December 1923, *he had more men making shoe dies than any other concern in the country*, but that up to

that time he made no machines for use with the dies, that throughout the original case he referred to International Shoe Company and Brown Shoe Company as his accounts, indeed bringing Mr. Quinn of International Shoe Company on the stand to state that he, Quinn, suggested the Model T type of machine to Altvater. We note the names of the two above companies, because International is by far the largest shoe manufacturer in the world, and Brown a runner up, and part of the argument of petitioners is based on two old machine leases from Freeman to Brown Shoe Company and International Shoe Company (Rec. 77 and 78) which Freeman made to these two companies, but which the record shows were never followed by the sale of a single shoe die by Freeman for use with the leased machines (Rec. 71 et seq.). As a matter of fact, except for these two old machines, there is nothing to show that Altvater ever sold dies coming under the Freeman patent, except for use on machines which Altvater himself placed with the manufacturers. This Court can imagine what it meant to Freeman to be deprived of this business, and to have his new machine promptly copied. Yet Freeman is accused by petitioners with holding to himself all of the machine business within his field.

13. With regard to the allegation that respondents put into issue the validity of the reissue patents, in the present cause, upon reply to counterclaim, petitioners are stating a half truth. What the record shows is that respondents moved to strike the counterclaim for declaratory judgment, were turned down by the District Court, and that they then replied thereto, saying:—

“Now come the plaintiffs and reply to the counterclaim of the defendants, reserving to themselves all objections to the legal force and effect thereof, and each and every portion therefor, and for their reply state as follows:” (Rec. p. 50).

The petition, page 3, Section 10, certainly intimates to this Court that Freeman voluntarily joined issue as to the validity of his patents.

14. We have already commented upon what actually took place in the Court of Appeals in this cause. We charge that the petitioners' statement in items 12 and 13 gives an incomplete view of the situation.

15. We have already stated the matter as to the declaratory judgment proceeding instituted by Altvaier in Cincinnati in the Sixth Circuit. It is true that in its decision the Court of Appeals indicated that the Court of Appeals of the Eighth Circuit could grant petitioners what relief they were entitled to. The Court in the Sixth Circuit did not know that the Court of Appeals in the Eighth Circuit had previous to its decision but subsequent to the dismissal of the Bill by the Cincinnati District Court, denied the petitioners any right to reopen the original cause and present the points which it now seeks to have this Court consider (Rec. 197). In the Sixth Circuit no facts were adduced other than those pleaded by these petitioners, as already noted, whereas the Eighth Circuit had the facts before them.

16. This strange and elaborate litigation picture is quite confusing, but perhaps illustrates why Freeman objects to being forced to go through this proceeding after five times to Courts of Appeal, and now a second time to this Court on petition for certiorari.

QUESTIONS PRESENTED

(Page 5 of Petition)

1. We deny that the first question as stated is presented. On rehearing, the Court of Appeals held that aside from the infringement issue, there was no justiciable controversy between the parties, as we have quoted above. Respond-

ents' position, namely, that having continued to pay royalties on originally licensed devices, the petitioners had prevented a patent suit against them, and, hence, could not say that one was imminent (justiciable), was upheld by the Court of Appeals on rehearing.

2. The second suggested question is of a piece with the first. The only question is as to whether or not, having continued to pay royalties, the petitioners can say they have been threatened with a patent suit. On this score, the Court of Appeals was clearly correct in dismissing the counterclaim.

3. The third point made by the petition is not open to petitioners, because they have no right of appeal thereon. As we have already noted, the defense of "unclean hands" was asserted as such *and not as a part of the counterclaim*. The *petitioners* won on the Supplemental Bill and Answer, and, hence, are *without right of appeal*. Then further the so-called "unclean hands" could not have been pleaded in the counterclaim, because it is a defense, only, and not a matter for offense. As stated in Equity maxims, it is a shield, not a sword. Furthermore, the charges are based on written contracts, and around them petitioners seek to build a story which does not respond to the facts, and as to which there are no facts of record, except the contracts alone. Hence, to discuss this point, as in justice to our client we must, it will be necessary for us to relate the history briefly, of which these contracts form a part, and the several judicial decisions referred to by the petitioner, form a background.

REASONS FOR GRANTING THE WRIT ARE WITHOUT FOUNDATION

1. *Our first point* is that the "unclean hands" defense was not a part of the counterclaim in this cause, but was inserted as an amendment to the answer of petitioners.

They won in the Court of Appeals on the Bill and Answer, and, hence, have no right of appeal on this point.

2. It is typical of the arguments of petitioners to find them stating that in *Premier v. Freeman* (84 Fed. 2d 425), the Court of Appeals for the First Circuit found that Freeman "controlled over fifty per cent of the entire woman's shoe industry," when the petitioners' business constituted around half of the total business in the field of Freeman's patent, covering the production by petitioners of as many cut-out dies as all others including Freeman put together.

Freeman prior to 1923 thought of a new way of making decorative cut-outs in women's shoes. His work in 1923 was reported to these petitioners, who at once began to urge the machine manufacturers in the country to get out a machine which would do this work, and also to copy the Freeman machine on their own account. Shortly after Freeman's machine came on the market, a number of competing manufacturers, including these petitioners, came out with like machines. Three of them filed applications for patent on machines and were thrown into interference with Freeman. By the time he had been able to get rid of this interference situation, which finally he had to do by means of a settlement, the shoe trade had largely equipped itself with machinery to carry out this new practice. So successful was the new practice that it opened up a new era in fine looking women's shoes, made in a manner much cheaper than before, so as to be available to all. Now women who could not pay high prices for fancy shoes, could get fancy ones at ordinary prices (see Record *Premier* case Ex. 24).

Freeman's patent covered a machine for doing this work and certain special kinds of dies for use in this machine. As stated by petitioners, all the principal die makers recognized his rights, which it took him five years to get

through the Patent Office, due to the opposition above noted. His license contracts are simple, contain no price fixing, contain no limitations except one. Since certain of the dies licensed could be placed in ordinary presses by means of a revamping of the latter, Freeman could not permit of their sale to other than owners of licensed machines. Had he done so, he would have received no royalty from machines, which his patent gave him a right to.*

There is no sign of a "combination," nothing whatever but what this Court has time and time again indicated as a proper thing to do.

The true facts as to Freeman are that he made such an important advance in shoe making that it completely revolutionized the field, and that Freeman, a small manufacturer, unable to supply his machines fast enough, or, anywhere near meet the demand for the machines which arose overnight, was met by a flood of competition, so that his only recourse was in issuing licenses and collecting royalties.

3. Petitioners, no doubt, wish to "*strike down*" Freeman's patent rights as stated in reason (3). Indeed, that is all they are interested in. A suit is now pending in Cincinnati on counterclaim for infringement of his patents, entitled *Bee Machine Co. v. Freeman*. Petitioners know this, yet they cite the *Schreiber-Schroth* case, as a ground for this Court's acceptance of the writ.

4. The counterclaim, as we view it, was correctly dismissed on rehearing because it did not state a justiciable

* This was because an "anvil die" under his patent included not only a cutting die, but a specially constructed base and support, called an anvil. When any press with a bed and a pressing member was revamped to give the clearances required by the patent, and the die installed therein, the full combination of the patented machine was obtained. He never in any contract prohibited the sale of an unpatented die. The license in suit gives rights specifically for patented dies other than anvil dies for unlicensed machines. (Rec. p. 8, clauses 1 and 5.) This is all that there is as to the so-called "restrictions" of the license contracts, repeatedly noted in petitioners' statement and brief.

controversy. The conclusion of the Court of Appeals was in exact accordance with the decisions of this Court.

5. The statement of conflict between the Sixth and the Eighth Circuit is perfectly ridiculous. For one Court to state that another can consider a question, does not create a conflict when the other Court considers it and rejects it, particularly where the first Court was ruling on a demurrer or motion to dismiss.

6. The *Electrical Fittings Corp. v. Thomas & Betts* decision was followed precisely by the Court of Appeals. Their refusal on rehearing to affirm the District Court on the counterclaim was because it presented no justiciable controversy, as we have quoted above. The refusal to consider the "unclean hands" defense, is not appealable subject matter, because petitioners were successful in defeating respondents' bill, but surely it did not require any ruling, when the Bill was dismissed to which it was an answer.

ARGUMENT

We have discussed the patent license situation briefly above, showing that the licenses were not a "scheme" or a "combination." This charge, we say, has no support in fact, and certainly no support on this record. Freeman issued licenses without price control covering both machines and dies, and he has no "combination" with anyone.

This is not "stifling" competition, as petitioners say in point 2, page 6. To say that Freeman's licenses are "combined" with him is outrageous.

Under the circumstances, as above recited, how can Freeman be charged with illegal monopoly? The very fact that he did license his competition surely does not mean that his invention was a foolish and limited one. The very fact that he did license his competitors shows beyond the

slightest peradventure, that he was not trying to monopolize his advance.

What the contracts show (petitioners have not seen fit to print them in the record) is that Freeman issued *licenses to make machines* to Brockton Perforating Machine Company, George Knight & Company and United Shoe Machinery Corporation. Brockton and Knight were the main machine makers for the shoe trade in the field with which the Freeman invention is concerned. These petitioners also made hundreds of machines. Freeman licensed the petitioners' machines, which petitioners had made and sold before Freeman's patent had been granted, during the five years of contest in the Patent Office. Contrary to the contract involved in this action, the petitioners put out well over a hundred additional machines, called the Model T machine. To urge that Freeman is in some way a wrongdoer because of monopolizing machines on which he had a patent is doubly futile when we thus see that the trade was largely supplied with his machine by his competitors, whom, as the contracts show, later took a license.

A single die cutting machine is used to decorate untold numbers of pairs of shoes. A single "anvil die" used in such machines and forming a part thereof, when installed, will cut untold numbers of pairs of shoes of its particular design. The very argument of petitioners shows that the entire shoe trade is supplied with machines, and it was supplied even before the patent issued.

The charge that a "pseudo settlement" of interferences gave rise to the Freeman patent is an unwarranted statement. Study of the contracts involved, whereby Freeman had to work out some kind of an end to the interminable interferences with which he was subjected, ending, however, in the Freeman patent being granted with ample claims, and ending with his competitors agreeing there-

after to pay him royalties as was his due and with no strings, will show this to be false.*

The note below is quoted from Freeman's testimony in *Freeman v. Premier* (supra), to which testimony the petitioners make reference, as to Freeman "boasting about his invention" (Pages 69-70 of said record).

One would think that it was *impossible to urge* that a patentee who requires no one to buy anything from himself, and permits his competitors to make and sell everything that he makes and sells, without price restriction, has conducted himself contrary to the rulings of this Court in the *Morton Salt* case, in which cause Mr. Kingsland, by the way, was counsel for the unsuccessful litigant.

The present record shows that in late 1923 and early 1924 (Exs. X-8 and X-9) five years before his patent, Freeman's company leased one machine to International Shoe and one to Brown Shoe, with a restriction that the dies be purchased from his company for those machines. The record shows that this was a dead letter long before the patent issued, and that the company never sold a die for these machines. The matter had been gone and forgotten and was originally worked out at a time when it was legal to do so (Rec. p. 71 et seq.). These are the facts as to what is referred to on page 12 of the petitioners' brief.

* "As to the outcome of these interferences I did not buy them all out. They had a whole lot of fighting down in the patent office and they argued it before a law examiner, and some of the other parties claimed that there was no invention, tried to knock out our patent and the law examiner decided it was patentable. After they could not knock out our patents knowing we antedated them, they were glad to take out a license and turn over their patents to us. That happened with regard to the Brockton Perforating Machine and George Knight.

"With regard to the Thomas patent, that was owned by the United Shoe Machinery Company. We could not spend the rest of our lives fighting them. Our patent attorney said it would be better to buy anything. All we did was to save money by buying a patent, rather than having them fight us for three or four years."

"Then I licensed all of these men that I was in interference with. We licensed them and they agreed to pay us a royalty for every machine they made thereafter and every die they made thereafter, including the United Shoe Machinery Company."

Freeman provided in some licenses that the license would confine his business in dies which served the particular purpose of his patent, to licensed dies. This is a common provision in license contracts as an assurance of good faith on the part of the licensee. It was forced on Freeman by the activity of petitioners under their license contract. These are the facts as to what is charged on page 13 of the brief, at the middle of the page.

Freeman early licensed these petitioners. Their conduct in coming out at once with a "knocker" machine (the Model T machine), also led Freeman in his subsequent contracts to try to provide against such conduct by others, by describing certain devices as coming under his patent. These are the facts as to what is urged on page 14 of the brief. He never made any provision that gave him control over anything, or pre-empted any business for his exclusive enjoyment.

Point 1 of petitioners (p. 16 of the brief) stresses the findings in the District Court in this case. We charge that these were simply the result of a wholesale adopting by the District Court of findings and conclusions provided to the Court at its request by petitioners when it had concluded to decide in favor of petitioners.

Far from denying petitioners a license under his patents, Freeman vigorously contended in this cause that petitioners were licensed. He had sent his reissue patents to petitioners, and without protest they had continued as before to pay royalties. What was Freeman to think in view of this? We say that a charge that Freeman is or was trying to stop petitioners from operating under his patent is an absurdity. What Freeman seeks is royalties from those who use his inventions, and that is all that he ever asked for from the trade.

Counsel for petitioners stresses that among the concerns licensed to make machines is United Shoe Machinery Corp. as to which he notes the size of this concern, and we presume wishes by innuendo to intimate that there must be something beside the simple license contract (Ex. A-2) to that concern.

It thus becomes fair for us to intimate that perhaps Mr. Kingsland is attorney for International Shoe Company, the largest shoe maker in the world, and, until the W. P. B. restrictions in 1942, petitioners' chief customer, as well as representing the petitioners, the largest die makers in America and probably in the world. It would be to the interest of these concerns to defeat Freeman in some way or other, either by stopping an infringement suit by taking a license, and then using something which they contend does not come under it, which petitioners did and lost on, in 66 Fed. 2nd 506; or by fine-combing the Freeman license contracts to find some defect therein which they can raise, to make a show of "righteous" indignation which petitioners seek to do here; or by attacking with extreme technicality the reissue procedure of Freeman, after he lost on some of his broader claims in the *Premier* suit, which petitioners sought to do in their counterclaim.

Incidentally, in the *Premier* suit, the Court indicated that Freeman had a method invention rather than a machine invention in the broader aspects of his advance, and held certain die claims invalid for that reason, which we say is technical. Also in that case Freeman was required to prove that he was an inventor beyond a reasonable doubt, because his invention was so important in the shoe making art.

We note that petitioners say that the patents have only three years to run. They might also have stated that the

manufacture and sale of the structures covered by the patent have been stopped for the duration of the war under W. P. B., as above noted. Under such circumstances, there is scarcely any large public interest involved in this proceeding.

Respectfully submitted,

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